

**REPORT OF THE AUDIT OF THE
BARREN COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period
December 30, 2006 Through April 16, 2007**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
BARREN COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period
December 30, 2006 Through April 16, 2007

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2006 Taxes for the Barren County Sheriff for the period December 30, 2006 through April 16, 2007. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$1,745,723 for the districts for 2006 taxes for the period December 30, 2006 through April 16, 2007, retaining commissions of \$55,662 to operate the Sheriff's office. The Sheriff distributed taxes of \$1,690,577 to the districts for 2006 taxes for the period December 30, 2006 through April 16, 2007. Taxes of \$31 are due to the districts from the Sheriff and refunds of \$2,762 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor
Robert M. Burnside, Secretary
Finance and Administration Cabinet
Honorable Davie Greer, Barren County Judge/Executive
Honorable Chris Eaton, Barren County Sheriff
Members of the Barren County Fiscal Court

Independent Auditor's Report

We have audited the Barren County Sheriff's Settlement - 2006 Taxes for the period December 30, 2006 through April 16, 2007. This tax settlement is the responsibility of the Barren County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Barren County Sheriff's taxes charged, credited, and paid for the period December 30, 2006 through April 16, 2007, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated August 20, 2007 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robert M. Burnside, Secretary
Finance and Administration Cabinet
Honorable Davie Greer, Barren County Judge/Executive
Honorable Chris Eaton, Barren County Sheriff
Members of the Barren County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

August 20, 2007

BARREN COUNTY
CHRIS EATON, SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period December 30, 2006 Through April 16, 2007

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Transferred From Former Sheriff	\$ 238,658	\$ 147,732	\$ 1,019,496	\$ 233,883
Increases Through Exonerations	72	24	356	69
Franchise Taxes	92,219	26,484	364,154	
Additional Billings				6
Oil and Gas Property Taxes	1,008	336	4,070	956
Limestone, Sand and Mineral Reserves	571	190	2,304	541
Penalties	13,344	7,919	56,832	12,994
Gross Chargeable to Sheriff	<u>345,872</u>	<u>182,685</u>	<u>1,447,212</u>	<u>248,449</u>
<u>Credits</u>				
Exonerations	335	161	1,487	318
Discounts	191	53	752	21
Delinquents:				
Real Estate	24,428	12,013	104,304	23,306
Tangible Personal Property	1,277	486	5,460	2,326
Fire Dues		7,050		
Uncollected Oil Property	164	55	662	155
Franchise Taxes	57,307	15,573	220,611	
Total Credits	<u>83,702</u>	<u>35,391</u>	<u>333,276</u>	<u>26,126</u>
Taxes Collected	262,170	147,294	1,113,936	222,323
Less: Commissions (a)	<u>11,142</u>	<u>4,438</u>	<u>30,633</u>	<u>9,449</u>
Taxes Due	251,028	142,856	1,083,303	212,874
Taxes Paid	252,734	143,426	1,081,899	212,518
Refunds (Current and Prior Year)	<u>342</u>	<u>116</u>	<u>1,432</u>	<u>325</u>
Due District or (Refunds Due Sheriff)		(b)	(c)	
as of Completion of Fieldwork	<u>\$ (2,048)</u>	<u>\$ (686)</u>	<u>\$ (28)</u>	<u>\$ 31</u>

(a), (b), and (c) See Next Page.

The accompanying notes are an integral part of this financial statement.

BARREN COUNTY
CHRIS EATON, SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES
For The Period December 30, 2006 Through April 16, 2007
(Continued)

(a) Commissions:

4.25% on	\$	588,919
2.75% on	\$	1,113,936
0% on	\$	42,868

(b) Special Taxing Districts:

Library District	\$	(433)
Extension District		<u>(253)</u>

(Refunds Due Sheriff)	\$	<u><u>(686)</u></u>
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(c) School Districts:

Barren County School District	\$	<u><u>(28)</u></u>
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BARREN COUNTY
NOTES TO FINANCIAL STATEMENT

April 16, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

BARREN COUNTY
NOTES TO FINANCIAL STATEMENT
April 16, 2007
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 16, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2007. Liens are effective when the tax bills become delinquent. The collection period for these assessments was December 30, 2006 through April 16, 2007.

Note 4. Interest Income

The Barren County Sheriff earned \$3,836 as interest income on 2006 taxes for the period December 30, 2006 through April 16, 2007. As of August 20, 2007, the Sheriff owed \$2,350 in interest to the school districts and \$1,486 in interest to the county treasurer.

Note 5. Sheriff's 10% Add-On Fee

The Barren County Sheriff collected \$62,886 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Barren County Sheriff collected \$1,680 of advertising costs and \$1,680 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Davie Greer, Barren County Judge/Executive
Honorable Chris Eaton, Barren County Sheriff
Members of the Barren County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Barren County Sheriff's Settlement - 2006 Taxes for the period December 30, 2006 through April 16, 2007, and have issued our report thereon dated August 20, 2007. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Barren County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Barren County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Barren County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Barren County Sheriff's Settlement – 2006 Taxes for the period December 30, 2006 through April 16, 2007 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

This report is intended solely for the information and use of management, the Barren County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

August 20, 2007

COMMENTS AND RECOMMENDATIONS

BARREN COUNTY
CHRIS EATON, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period December 30, 2006 Through April 16, 2007

STATE LAWS AND REGULATIONS:

The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

KRS 134.140(3)(b) requires the Sheriff to pay monthly “. . . that part of investment earnings for the month which is attributable to the investment of school taxes.” The Sheriff should distribute the investment earnings at the same time as the monthly tax collections. KRS 134.140(3)(c) requires the remaining monthly interest to be paid to the county treasurer if “the salaries and expenses of his office are paid by the county.” The Barren County Sheriff earned \$3,836 as interest income on 2006 taxes for the period December 30, 2006 through April 16, 2007. However, the sheriff’s office did not pay the interest to the board of education or the county treasurer on a monthly basis. As of August 20, 2007, the Sheriff owed \$1,445, \$720, \$185, and \$1,486 in interest to the Barren County Board of Education, Glasgow Independent Board of Education, the Caverna Independent Board of Education, and the Barren County Treasurer, respectively.

Sheriff’s Response: No Response.

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Sheriff’s Office Lacks Adequate Segregation Of Duties Over Receipts

During our review of internal controls, we noted the following lack of adequate segregation of duties over receipts:

- The Sheriff’s bookkeeper collected money, prepared deposits, and prepared daily collection printout. The former Sheriff or another individual did not document oversight of any of these activities.
- The Sheriff’s office did not document reconciling monthly tax reports to receipts and disbursements.

No compensating controls were noted to offset these control deficiencies. Therefore, the control deficiencies as described above constitute a significant deficiency and material weakness. The former Sheriff should have implemented the compensating controls noted below to offset these internal control weaknesses.

- The Sheriff or designee should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. The Sheriff could document his comparison by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should require a monthly reconciliation of tax distribution reports to the receipts and disbursements ledgers.

Sheriff’s Response: No Response.

